Supreme Court, U.S.
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No. 96-333

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1996

SIMPLY FRESH FRUIT, INC. & P&C SERVICES, INC.
Petitioners,

v.

THE CONTINENTAL INSURANCE COMPANY
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

REPLY TO BRIEF IN OPPOSITION

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Questions Presented For Review

1. Whether potential claims for trade dress infringement, false designation of origin in violation of the Lanham Act and common law unfair competition inherently involve "advertising activity".

2. Whether as a matter of law patent infringement claims within the meaning of 35 U.S.C. Section 271 in effect prior to January 1, 1996 can occur in the course of an insured's advertising activities.

3. Whether under California law a "duty to defend" attaches to potential claims in violation of the Lanham Act and Patent Act.

4. Whether the decision of the Ninth Circuit in holding that misappropriation of trade secrets is not covered under a liability insurance policy conflicts with state or federal decisions or statutory law.

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ARGUMENT

1. **The Ninth Circuit Decision Holding That Patent Infringement Cannot Occur In The Course Of An Insured's Advertising Activities Is In Conflict With Prior Decisions Of The Supreme Court And Other Circuit Court Of Appeals.**

Respondent contends that petitioners have misconstrued prior Supreme Court and other Circuit Court of Appeals decisions concerning what constitutes "use" as it existed before amendment of 35 U.S.C. § 271(a) on January 1, 1996. However, as set forth below each case relied upon by petitioners does in fact support a showing that patent infringement may indeed occur in the course of an insured's advertising activities.

As a starting point, respondent's brief has ignored the precedential effect of the holding in *Roche Products, Inc. v. Bolar Pharmaceutical Co.*, 733 F.2d 851 (Fed. Cir. 1984), cert. denied 469 U.S. 856 (1984) (superseded in part by statute). There the Federal Circuit in considering the depth of the breadth of "use" that is covered by 35 U.S.C. § 271(a), prior to the patent statute being amended effective January 1, 1996, stated in pertinent part as follows:

> Title 35 U.S.C. § 271(a) incorporates the disjunctive language of the statutory patent grant which gives a patentee the "right to exclude others from making, using, or selling" a patented invention, 35 U.S.C. § 154 ....
>
> It is beyond argument that performance of only *one*

> of the three enumerated activities is patent infringement. It is well established, that the *use* of a patented invention, without either manufacture or sale is actionable. See *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964); *Coakwell v. United States*, 372 F.2d 508, 510 (Ct. Cl. 1967). Thus, the patentee does not need to have *any* evidence of damage or lost sales to bring an infringement action (emphasis in original).

The Federal Circuit Court of Appeals also went on to hold in *Roche*, that the term "use" has never been taken "to its utmost possible scope". *Id.* at 891. Thus, it is abundantly clear from the *Roche* holding that "use" of a patented device in "advertising activities" squarely falls within the operative statutory provisions of 35 U.S.C. § 271(a). *Id.* at 861.

Moreover, in view of the subsequent Federal Circuit decision of *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994), the *Roche* decision has even more significance based upon its holding concerning the broad interpretation that the term "use" should be given under the patent laws. In *Beverly Hills Fan*, the Federal Circuit in addressing the issue of whether the law of any particular circuit should be applied in an issue that is "intimately related to substantive patent law" reasoned as follows:

> The application of an assumed Fourth Circuit law [as it effects the federal district court's exercise of jurisdiction over patent infringement], or for that matter, the law of any particular circuit, would thus not promote our mandate of achieving national

> uniformity in the field of patent law (citations omitted).
>
> The creation and application, of a uniform body of Federal Circuit law in this area [personal jurisdiction in patent law cases] would clearly promote judicial efficiency, would be consistent with our mandate, and would not create undue conflict and confusion at the district court level. Under circumstances such as these, we have held we owe no special deference to regional circuit law (citations omitted).[1] *Id.* at 1570-71.

Turning again to the specific holding in *Roche* where the court held that "the word 'use' in section 271(a) [of the patent statute] "has never been taken to its utmost possible scope", petitioners submit that such reasoning also fully supports a holding that patent infringement can in fact occur in the course of an insured's advertising activities. The plain meaning of the statutory language of 35 U.S.C. § 271(a) also substantiates a finding that patent infringement can be committed in the course of advertising activities. Any other conclusion would run afoul of the Federal Circuit holding in *VE Holdings Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990), *cert. denied*, 111 S. Ct. 1315 (1991). There the court held "[i]f the statutory language is clear, the plain meaning of the statute controls." *Id.* at 1579.

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[1] In *Beverly Hills Fan*, the court also noted that an "important role of the Federal Circuit is to eliminate forum shopping on either *substantive* or procedural grounds, consistency in this area would advance that role" (emphasis added). *Id.* at 1570. By analogy the Federal Circuit's role in determining the extent of "use" under the patent statute should also be given by the Supreme Court.

Petitioners' reliance on the cases of *Roberts v. Ryer* 91 U.S. 150, 157 (1875); *Markman v. Westview Instruments, Inc.*; 116 S. Ct. 1384 (1996); *Neff Instrument Corp v. Cohu Electronics, Inc.*, 269 F.2d 668, 674 (9th Cir. 1959) and *Pitcarin v. United States*, 547 F.2d 1106, 1125 (Ct. Cl. 1976), *cert. denied*, 434 U.S. 1051 (1978) are also directly on point as to the broad interpretation that should be given that term "use" in the patent setting. Moreover, contrary to respondent's attempts to constrain the true import of the latter two cases, these cases speak for themselves in not only following the spirit and intent of the subsequent Federal Circuit holding in *Roche*, but indeed directly support petitioners' conclusion that patent infringement can occur in the course of an insured's advertising activities.[2]

2. **The Conduct Alleged In The State Action Raised The Potential For Claims Of Trade Dress Infringement, False Designation Of Origin Under The Lanham Act And Common Law Unfair Competition And Inherently Involve "Advertising Activity".**

Respondent contends that the potential to amend the underlying trade secret complaint and/or federal patent infringement complaint by petitioners was too speculative and far-fetched to create a duty to defend. However, each case relied upon by respondent required that a new fact be alleged

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[2] Respondent's reliance on the case of *Intermedics, Inc. v. Ventritx, Inc.*, 775 F.Supp 1269 (N.D. Cal. 1991), *aff'd*, 991 F.2d 808 (Fed. Cir. 1993) to support its contentions that the "demonstration" of an accused product does not constitute a "use" is misplaced. In *Intermedics*, the court dealt with the effect of 35 U.S.C. § 271(e) (1) and its exemption as applied to FDA clinical testing. In the present case the product does not fall within the purview of the exemption.

to sustain a legal theory invoking coverage. In contrast, in the underlying state and federal actions filed against petitioners by Reddi-Made, the record on appeal substantiates potential claims that could have also been asserted before or during trial. Such claims petitioners submit include acts of trade dress infringement and false designation of origin under the Lanham Act and acts of common law unfair competition.

Petitioners' conclusion that the subject potential claims mandated coverage by respondent is also supported by the totality of allegations and certain deposition testimony taken in the trade secret action which were all made part of the record on appeal. See Petition Appendices ("PA") B-15, 19-20. For example, throughout the discovery period in the trade secret action, Reddi-Made's president made repeated references to the smooth edges of his cut fruit product and claimed that the visual appearance of the cut fruit disclosed his alleged proprietary fruit cutting process.[3] PA B-20. Moreover, Reddi-Made specifically included a claim of "unfair competition" in the caption of the state complaint. Thus, the totality of facts in the underlying trade secret action support potential claims for trade dress infringement, false designation of origin and unfair competition.

Petitioners' argument that a duty to defend arose on the part of respondent based upon the potential claims for trade

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[3] It is well grounded in trademark law that "trade dress" includes the shape and design of the product itself. *See Ideal Toy v. Plawner Toy Mfg.Corp.*, 685 F.2d 78 (3d Cir. 1982) (while historically "trade dress" referred to product packaging only, "trade dress" in its "more modern sense" refers to the appearance of the product); *Kohler Co. v. Moen, Inc.*, 12 F.3d 632 (7th Cir. 1993) ("broad definition of trade dress as applied by the courts includes product configurations").

dress infringement, false designation of origin and unfair competition claims is also well grounded under California law.

In determining whether a duty to defend exists, the California courts have consistently turned not on the nature of the remedies sought but rather the *potential* for substantive claims supported by the conduct of the insured. See *Montrose Chemical Corp. v. Superior Court*, 6 Cal. 4th 287 (1993). There the California Supreme court held that:

> "The duty to defend is a continuing one, arising on tender of defense and lasting until the underlying lawsuit is concluded or until it has been shown there is *no* potential for coverage" 295 (emphasis original). *Id.* at 295.

> [T]he insured is entitled to a defense if the underlying complaint alleges the insured's liability for damages potentially covered under the policy, or if the complaint might be amended to give rise to a liability that would be covered under the policy. *Id.* at 300.

Likewise, in *Horace Mann Insurance Co. v. Barbara B.*, 4 Cal. 4th 1076 (1993) the California Supreme Court held that in determining coverage the court must look "not to whether non-covered acts predominate in the third party's action, but rather to whether there is *any* potential for liability under the policy". *Id.* at 1086 (emphasis in original).

Moreover, the Ninth Circuit's holding in the present case contradicts the fundamental premise in trademark law that "allegations of trademark infringement and *trade dress*

infringement inherently involve advertising activity. (emphasis added)". See, *Poof Toy Products Inc. v. U.S. Fidelity and Guaranty Co.*, 891 F.Supp 1228, 1234 (E.D. Mich 1995).

In view of the totality of evidence made of record on appeal, the trade secret action and/or federal patent infringement actions could have been amended to assert the aforementioned claims before or during trial. Thus, because such conduct inherently involves "advertising activity" respondent had a duty to defend petitioners in the underlying actions.

3. The Ninth Circuit Holding That The Misappropriation Of Trade Secrets Claim Did Not Occur In The Course Of Petitioners' Advertising Activities Conflicts With California Case Law And Statutory Law.

Respondent contends that the causal connection between the advertising injury and advertising activity required under the California Supreme Court decision of *Bank of the West v. Superior Court*, 2 Cal. 4th 1254 (1992) is not present in the underlying actions as they relate to Reddi-Made's claim of misappropriation of trade secrets. Furthermore, respondent contends that the Ninth Circuit correctly held that there is no duty to defend the allegations of misappropriation of trade secrets in the state action because Reddi-made did not seek damages based upon petitioners' advertising activities but rather the alleged misappropriation of Reddi-Made's technology.

However, the Ninth Circuit holding is in contradiction of a long line of California case precedent on the duty to defend

as set forth in Section 2 of petitioners' reply. Moreover, the subsequent Ninth Circuit holding in *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*, 93 F.3d 578 (9th Cir. 1996) has also misapplied California law by carving out an illogical exception to its prior decision in *Simply Fresh Fruit, Inc. v. Continental Ins. Co.*, 84 F.3d 1105 (9th Cir. 1996) by holding that the plaintiff in the underlying action for misappropriation of trade secrets had a "duty to defend" because plaintiff's "claims for misappropriation of trade secrets *related to marketing and sales* and not to secrets relating to the manufacture and production of security systems (emphasis added). *Id.* at 579.[4]

Contrary to the Ninth Circuit holdings in *Simply Fresh* and *Sentex*, the allegations and evidence made of record on appeal as identified above relative to Reddi-Made's claim for misappropriation of trade secrets directly substantiate that claims indeed occurred in the course of petitioners' advertising activities. This alleged misappropriation resulted in the alleged injury to Reddi-Made, whether the injury occurred at the time of the misappropriation, at the time petitioners advertised their cut fruit products at trade shows or at the time petitioners demonstrated the fruit cutting machine to their customers at their fruit processing facility. See PA A-4, B-20. Thus, there was at the minimum the possibility that the alleged injury occurred "in the course" of petitioners' "advertising activities" and that any liability on the part of petitioners would have been "as a result of" petitioners' alleged

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[4] In the *Simply Fresh* decision the Ninth Circuit took note of the fact that petitioners "would on occasion give prospective and current customers tours of their newly automated processing facilities in order to highlight the improved quality of their fruit products. See PA A-4.

misappropriation.

For example, the injury to Reddi-Made could have been that petitioners used Reddi-Made's know-how in developing petitioners' fruit cutting machine. Arguably, under this scenario the injury would have occurred when petitioners used Reddi-Made's alleged proprietary fruit cutting machine in processing cut fresh fruit to sell to petitioners' customers.

Conversely, the alleged injury to Reddi-Made could have been that Simply Fresh disclosed Reddi Made's alleged secret process for cutting fruit to customers at trade shows or in-house demonstrations that petitioners had no right to disclose. Under these set of circumstances the injury *would not have occurred* unless petitioners divulged Reddi-Made's secret process *in the course of petitioners' advertising activities*.

Given the liberal rules allowing amendments of pleadings and the fact that the defense was tendered by petitioners at an early stage of the litigation (PA B-15-16), there was a possibility that the alleged injury for which Reddi-Made sought relief in its state and federal complaints was causally connected to petitioners' advertising activities, *i.e.*, that it fell within the second scenario described above.

Petitioners' reasoning as set forth above is also in full accord with California case law governing the insured's reasonable expectation of coverage. The California Supreme Court has recognized that "[a]n insured buys liability insurance in large part to secure a defense of *all* claims potentially within policy coverage, even frivolous claims unjustly brought" (emphasis in original). *Horace Mann*, 4 Cal. 4th at 1086. Furthermore, the California Supreme Court

has also stated:

> It is elementary in insurance law that any ambiguity or uncertainty in an insurance policy is to be resolved against the insurer .... [I]f the doubt relates to extent or fact of coverage, whether as to peril insured against, the amount of liability, or the person or persons protected, *the language will be understood in its most inclusive sense, for the benefit of the insured* (emphasis added). *Insurance Co. of North America v. Sam Harris Constr. Co.*, 22 Cal. 3d 409, 412-413 (1978).

See also California Civil Code, §§ 1636, 1644, 1649 and 1654.

CONCLUSION

This case presents important issues concerning the extent of insurance coverage for claims of patent infringement, misappropriation of trade secrets, trade dress infringement and false designation of origin under the Lanham Act and common law unfair competition. In order to obtain uniformity in decisional law as it applies to both California and federal law in the intellectual property context, petitioners respectfully request this Court grant certiorari to review the issues.

Respectfully submitted,
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